BBVA Research

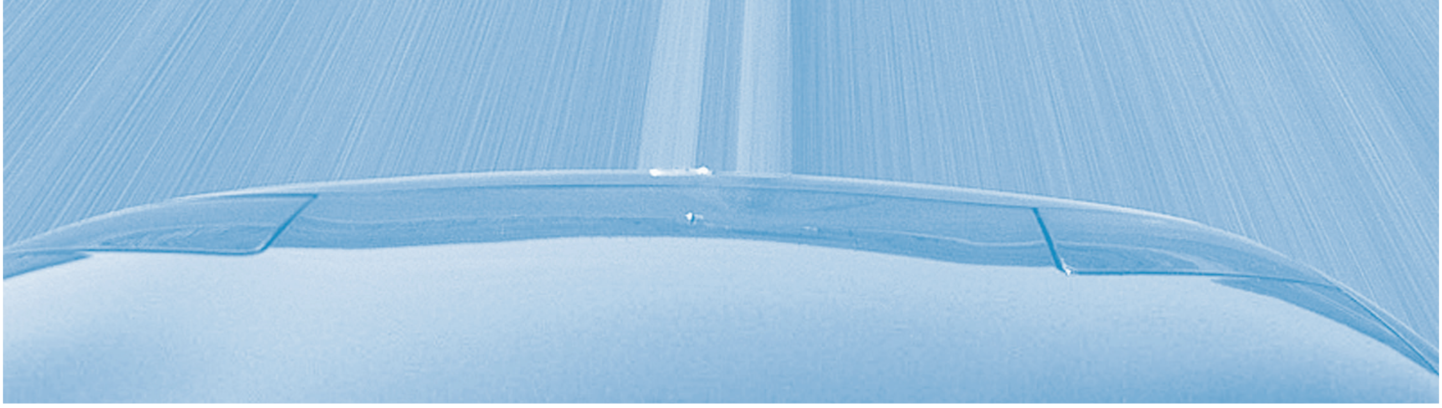
Colombia

Automobile Market Outlook

December 2010

Economic Analysis

- In 2010, automobiles sales in Colombia grew over 30% year-on-year on average, spurred by dynamic domestic demand, strong currency, and favorable loan conditions. We expect these factors to result in sales exceeding 300,000 vehicles in 2011.
- After the traditional dominance of a national industry concentrated on a few brands and companies, now imported vehicles account for over 60% of sales, as a result of increasing competition from new brands and models mainly from South Korea and Mexico.
- Automobile financing is a wide and competitive market, with an outstanding participation of financial companies and few banks, offering highly specialized products and services. The vehicle credit stock by the end of June 2010 accounted for 0.8% of GDP.
- In the medium term, growing demand for non commercial vehicles will be supported by the low penetration of automobiles, the expansion of a strong middle class, and the lower prices due to higher competition from imports.
- Given the excessive costs for the automotive sector associated to regulation (up to 50% for some segments), the development of the vehicles market would be favored by the simplification of regulation and differential taxation schemes. Negotiations with new trade partners, continuity in the liberalization process with MERCOSUR and the approval of the Free Trade Agreement with the United States would be steps forward.



Index

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1. A low-penetration sector with positive growth outlook

The automotive sector is currently one of the flagships of economic growth in Colombia. It is a sector strongly connected to domestic demand dynamics and which has plenty of room to grow due to both existing manufacture capacity and potential demand.

The recent transformation of the automotive fleet in Colombia has been fostered by better macro-economic conditions, advances in security, and progress in urban planning and renovation. Demand has grown in light of the better income of the population, with a per capita GDP growth of 5.2% on average over the last five years[1].

However, the inadequate and underdeveloped Colombian transport infrastructure has limited the expansion of the automotive sector. Currently, the country, with an area of 1,141,748 km2 only has 964 km of double lane roads, a primary road network of 18,705 km and a national road network of 141,374 km, amounting to 3 km of roads per thousand inhabitants. In this regard, the government has set public-private partnerships to accelerate large road projects and has included infrastructure among those key sectors for economic growth over the next four-year period. This would drive significant advances in terms of competitiveness and mobility, which will prompt the vehicular fleet growth.

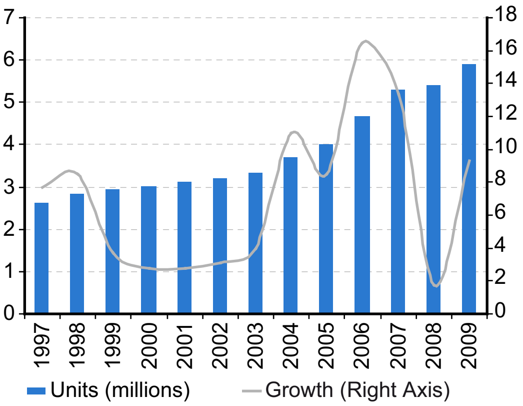
Together, these favorable conditions, both in terms of supply and demand, determine a positive growth outlook for the automobile market in Colombia, in the short and medium terms. In addition, changes in import tariffs regulation, together with the improved purchasing power of Colombians will continue to promote the structural transformation of the sector, with better vehicle penetration indices, enhanced trade of imported vehicles, brand diversification, and enlarged proportion of medium and high range vehicles.

Slow vehicular fleet renovation and growing motorcycle fleet

The automotive fleet in Colombia is of 5.8 million units[2] (figures at the close of 2009), of which 2.6 millions are motorcycles. Over the past five years, a faster expansion of the fleet has taken place, with an average growth rate of 9.2% (see **Chart 1**). Climatic and geographic features, together with maintenance cost, traffic flow problems in the cities, and the development of local industry are factors that have made possible the significant increase in the number of motorcycles. For models up to year 2005, motorcycles account for the largest part of the automotive fleet (see **Chart 2**).

Chart 1

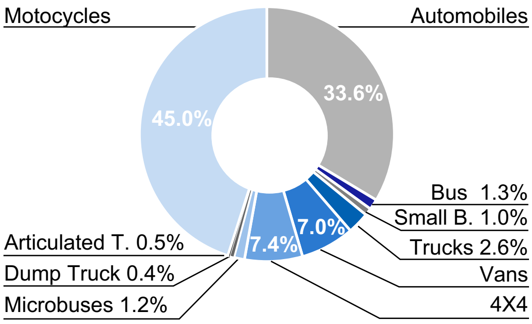
Automobile Fleet (Million units, YoY % variation)



Source: Ministry of Transport

Chart 2

Vehicle fleet by type - 2009 (%)



Source: Ministry of Transport

Significant variability is observed in the average age of the vehicular fleet by segment. The average age of the fleet is of 11 years if motorcycles are included and 15 years excluding the latter. Eighty-seven percent (of the fleet without motorcycles) of the fleet is private cars with an average age of 15 years, while commercial vehicles have an average age of 17 years. Some trucks have average ages of over 20 years (dump trucks) while the average age of articulated trucks is of 14 years. As seen in **Table 1,** 41% of all vehicles are less than 11 years old, compared to 33% of commercial vehicles, of which 28% are older than 25.

1: GDP per capita in dollars, PPP-adjusted. Fuente: FMI–WEO October 2010
2: Includes models from 1970. Source: Ministry of Transport

Table 1

Composition of the vehicle fleet in 2009 by age range (%)

	Automobiles	Commercial vehicles	All vehicles
1970-1984	19%	28%	23%
1985-1989	9%	6%	8%
1990-1994	13%	16%	13%
1995-1999	18%	17%	18%
2000-2004	13%	10%	11%
2005-2009	28%	24%	27%

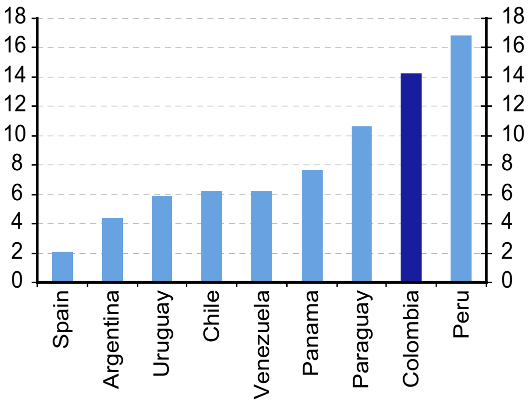
Source: BBVA Research

Low indices of vehicle penetration

In spite of the tradition and visibility of the sector, the penetration of vehicles in operation remains incipient. The motorization index for 2009, measured as inhabitants per vehicle, is 7.7 without motorcycles and 14 including the latter, showing a low incidence of cars per inhabitant comparing to other South American countries such as Chile, Venezuela, and Argentina, and also quite far from the levels seen in developed countries (see **Chart 3**). Moreover, the number of new vehicles per 1,000 inhabitants for Colombia remains low (4.1), much lower than the Latin American average (9.9) (see **Chart 4**).

Chart 3

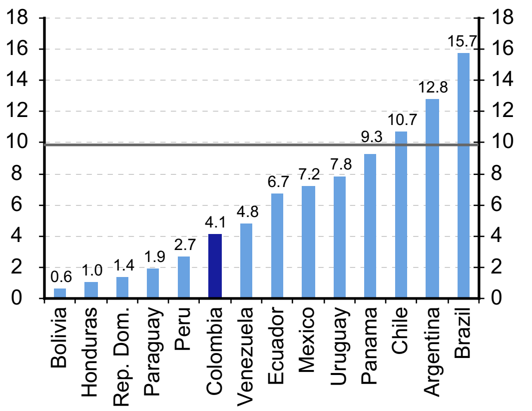
Inhabitants per vehicle 2009



Source: Domestic sources, BBVA Research

Chart 4

Cars per 1,000 inhabitants 2009



Source: ALADA

Low vehicular penetration in Colombia reveals the difficulties experienced by a large part of the population with low and medium incomes in affording a vehicle. These difficulties are related to the low average income of the population and the high relative price of vehicles that results from the tariffs and the complexity of the regulatory and taxation framework.

In particular, vehicle penetration in Colombia is affected by the high costs of the transport service and the underdeveloped infrastructure, which negatively impacts the competitiveness of the country. According to IDB data, in 2005 logistical costs in Colombia were 18.6% above the Latin American average and cost of ground transportation represented 37% of the logistical costs of foreign trade. According to the results of the World Economic Forum (WEF), in 2010 Colombia was in the 68th place among the 139 countries in the Global Competitiveness Index (GCI).

Accordingly, the Colombian transport sector is highly regulated, in particular road transport. The cargo transportation service has reference prices published by the Ministry of Transport that generate significant distortions in the delivery of the service. Extensive regulation, red type, and complex requirements raise the cost of the transport service, curb the demand for private or commercial vehicles, and affect the competitiveness of the country.

2. Accelerated growth of vehicle sales and greater imports penetration

Following two years of negative monthly variations, from July 2009 sales of vehicles recovered with an average monthly growth rate of 2.8%. So far in 2010, an accelerated recovery of the new vehicles market is being observed, with yearly growth similar to what was seen in 2005 and 2006. New vehicles sales reached 173,888 units in January-September period, equivalent to an annual growth of 30% (see **Chart 5**). If this recovery rate continues, at the end of 2010 total sales would be around 249 thousand vehicles, amounting to a value close to US$4.79 billion, or 1.7% of GDP.

Favorable conditions for imported vehicles to achieve greater market share

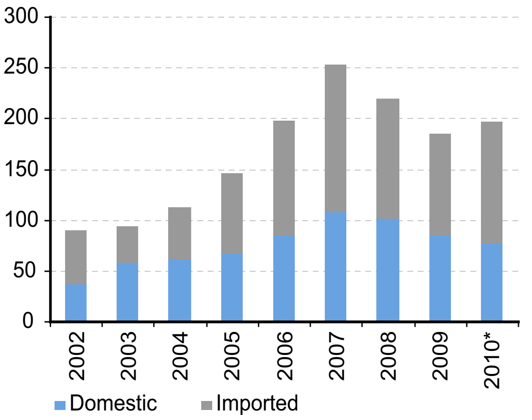
The supply of vehicles to the Colombian market has undergone an important transformation toward the imports market. After representing 62% of sales in 2003, national production has reduced its market share to 40% so far in 2010 (see **Chart 5**).

In addition, asymmetry is seen in the participation of imports and national industry by segment. In particular, the supply of locally assembled vehicles is distinguished by a greater share of trucks and passenger vehicles (52%) as well as private cars (59%). On the other hand, since 2008, all vans and small vans sold were imported.

The amount of imported vehicle has grown quickly over the last few years, and accounted for 60% of sales in 2009, or 105,000 units (see **Chart 5**). Among these imports, those carried out by national assembly companies stood out, accounting for 51% of accumulated imports to September.

Chart 5

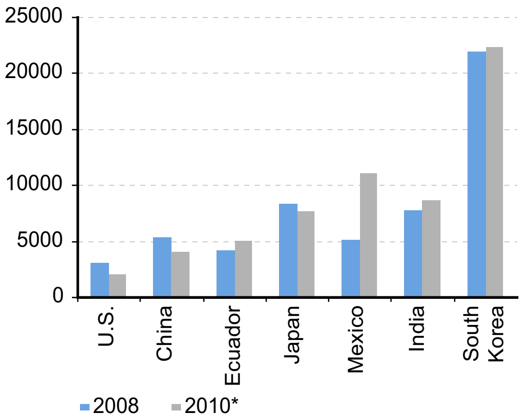
Vehicle sales by origin (millions of units)



Source: Econometría

Chart 6

Imports by country origin (Units)



* To August
Source: Econometría

In addition to favorable foreign exchange rates, the new trend of the market toward brands not assembled in the country is also results of changing local tastes, improvements in average personal incomes, and the re-exportation of these vehicles with value added to neighboring countries. By country of origin, imports of vehicles from South Korea, Mexico, and India predominate (see **Chart 6**).

Recently, growing imports have been further supported by the appreciation of the peso, which will continue to boost the purchases of vehicles assembled abroad, according to exchange rates forecasts for the coming year. Likewise, advances in the reduction of tariffs with some trade partners as well as new trade agreements will provide an additional boost to the sales of foreign vehicles.

The impact of these trade integration strategies on the productive structure of the sector could lead national companies to adjust their local production lines toward the production and export of few competitive models.

Tax regime is crucial for structure and development of the automobile sector

The tariff framework for vehicles in Colombia has evolved over recent years toward progressively decreased duties mainly related to trade treaties and agreements. This has made it possible to observe important reductions in nominal rates established in tariff regulation. In particular, the Andean Agreement, where the trade of vehicles between its members (Colombia, Bolivia, Ecuador, and Peru) is exempt of tariffs, has greatly helped Colombian exports. More recently, progress has been made on the gradual reduction of tariffs with Mexico, Brazil, and Argentina.

In the case of exports coming from Mexico, tariffs are at 5% (2% for some types of vehicles) and the full scrapping of the tariff is planned for 2011. In spite of expectations, the reduction of tariff rates has not generated a massive entry of vehicles assembled in that country, demonstrating that the Colombian industry is prepared for greater competition. As for Brazil, where the national industry is highly protected, 2011 will be the seventh year for the tariffs reduction program, after which the agreement will enter a review and renegotiation stage taking market behavior and the conditions of each country into consideration.

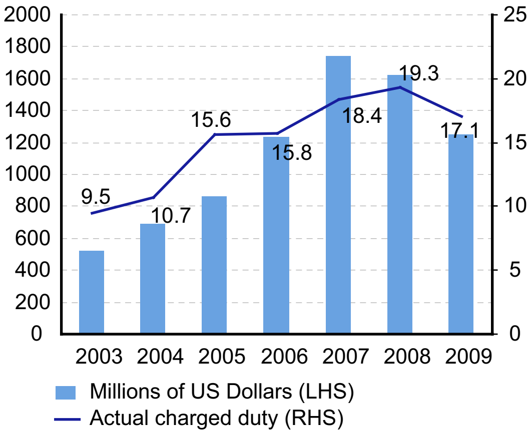
Prospects for the coming years include the furthering of the liberalization process, which will bring important changes in the sector structure. Currently, discussions focus on the negotiation of a trade agreement with South Korea, a project that could involve a gradual decrease of duty for cars over a period between 10 and 15 years. The latter agreement is especially important given the strong penetration of the Hyundai and Kia brands into the market.

In spite of reductions in import duties, the evolution of the effective duty on vehicles, measure as the tax collected as a percentage of the value of imports, has been increasing over recent years. Between 2003 and 2008, the effective duty for vehicles of less than ten passengers increased in a sustained path, from 9.5% to a maximum of 19.3% last year (see **Chart 7**). This growing tendency is the consequence of the increased volume of high value vehicles, which pay a higher duty, which has compensated the effects of tariff reductions. In the case of freight vehicles, the actual charged duty has remained relatively stable at 7.7%, in spite of the noticeable decrease in imports (see **Chart 8**).

On the other hand, the Ministry of the Environment, Housing, and Regional Development recently implemented a tariffs incentive for the import of clean air technology vehicles. A quota was initially approved for the import of 100 hybrid, electric, and natural gas vehicles with zero duty for the year 2010.

Chart 7

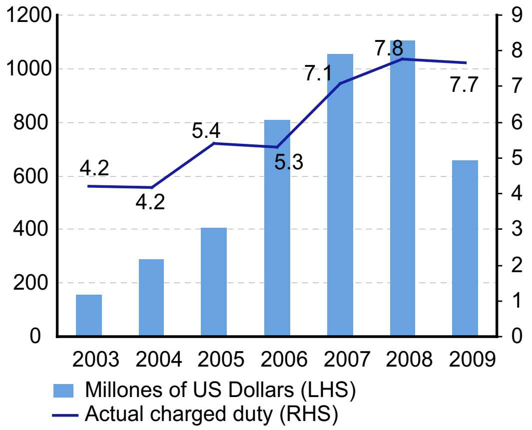
Imports of automobiles and vehicles for less than 10 passengers



Source: DIAN

Chart 8

Imports of freight trucks with cargo capacity under 5 tons



Source: DIAN

In addition to tariffs, vehicles in Colombia must pay differential rates of value added tax (VAT) varying according to the characteristics of the vehicle. In general terms, these rates are differentiated according to the use of the vehicle (passenger and freight vehicles), number of passengers, cargo capacity, and FOB value, as seen on **Table 2**. Vehicles subject to the highest rates are those for less than 10 passengers as well as pick-ups whose FOB value is US$30,000 or over. Conversely, vehicles subject to lower rates are those for over 16 passengers and trucks whose cargo capacity exceeds 4.537 tons. Therefore, differential duties for the sector imply excess costs nearing 50% for some segments.

Table 2
Average price of vehicles

	Nominal import duty	Import duty under trade agreements		VAT
		Mexico	Mercosur	
Passenger transport vehicles (between 10 and 16 passengers)	35%	5%	18.55%	16%
Passenger transport vehicles (over 16 passengers)	15%	2%	13.00%	16%
Vehicles for less than 10 passengers, engine size no greater than 1,000 cc and value under US$30,000	35%	5% & 0%	18.55%	25%
Vehicles for less than 10 passengers, whose value is US$30,000 or more	35%	5% & 0%	18.55%	35%
Taxis, engine size over 1000 cc	35%	5% & 0%	18.55%	16%
Vehicles for less than 10 passengers, with engine size greater than 1,000 cc, and value under US$30,000	35%	5% & 0%	18.55%	20%
Pick-up with cargo capacity 4.537 tons or less, and FOB value of US$30,000 or more	35%	5% & 0%	18.55%	35%
Trucks, other than pick-ups, cargo capacity 4.537 tons or less	35%	5% & 0%	18.55%	16%
Trucks with cargo capacity over 4.537 tons	15%	2% & 0%	7.95%	16%

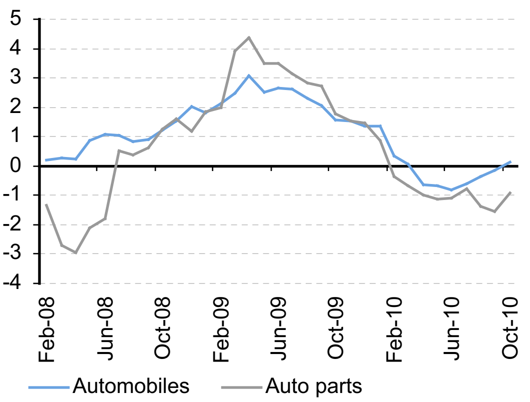
Source: DIAN and BBVA Research

Favorable price dynamic over the last six years

In addition to the reduction of tariffs with some trade partners, the development of the market has been busted by the reduced prices linked to the appreciation of the currency and greater competition between dealers. Also, the industry has recently faced controlled cost increases, in particular moderation in the growth of salaries and the slow increase in the price of fuels over the last two years (only by 2.3% between January 2009 and November 2010). Simultaneously, the prices of auto parts have fallen on average of 0.8% year-on-year so far this year to October (see **Chart 9**).

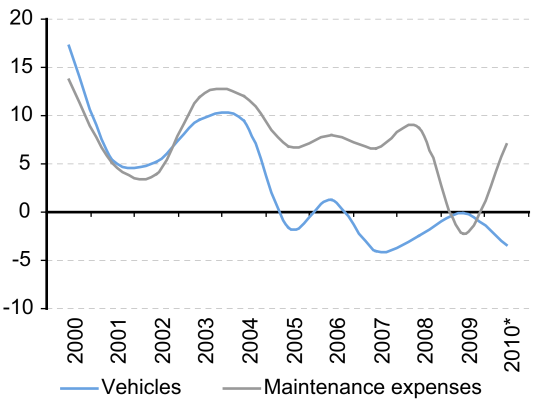
According to **Chart 10,** the recent vehicle prices are clearly displaying a decrease trend, while maintenance and operation costs have been fluctuating similar to fuel prices. Consumer vehicle prices have fallen on average by 2.2% year-on-year since 2005.

Chart 9
Producer prices of Automobile and automobile parts (YoY percent variation)



Source: DANE

Chart 10
Consumer prices of vehicles and maintenance (YoY percent variation)



* To September
Source: DANE

On the other hand, competitiveness factors and favorable conditions for imports have made possible the entry of vehicles from China, stimulating competitiveness and vehicle price reductions. In particular, as of September 2010 prices that decreased the most were trucks of lower range (-15.8% YoY) and those that decreased the least were medium-range cars (-3.9% YoY) (see **Table 4**).

Table 3
Average price of vehicles

	Value as of September 2010 (millions of pesos)			Year-on-year percent variation 2010-09		
	Bottom range	Medium range	High range	Bottom range	Medium range	High range
Automobiles	21,4	34,0	93,5	-5,7	-3,9	-7,4
Vans	49,0	66,7	130,0	-9,4	-6,6	4,8
Pick-ups	37,5	58,2	69,6	-2,1	-10,8	-13,4
Trucks	49,8	70,4	113,9	-15,8	-8,9	-5,8

Source: Econometría, BBVA Research calculations

The persistence of low prices in the worldwide automotive industry and the continuity of a strong currency will make possible the consolidation of stability in domestic automobile prices. Therefore, a possible increase in the average price would be linked to the availability of vehicles better specifications, as in the case of high-range vans.

3. A complex industry with highly specialized actors

The automotive industry combines various specialized activities as well as highly technical parts. The production chain is from the manufacturing of auto parts all the way to the assembly (light vehicles, trucks, buses, and motorcycles). Suppliers are from a wide range of industries such as the metallurgical, petrochemical (plastics and rubbers), and textiles industries.

Given the small size of the vehicle and auto parts market, the automotive industry has been characterized by small production scales, with a wide range of models. In particular, the specialization degree of auto parts companies is fostered through subcontracting schemes, in a production system in which assembly companies are dedicated to mounting.

The automotive industry is divided in three main branches: manufacturing of vehicles, bodies, and auto parts. In 2008 it included 182 companies and generated 14,690 jobs, of which 52% were temporary employees. The same year, employment linked to the sector represented 2.3% of industrial employment. On the other hand, the gross value of the production of the automotive industry was COP$3.97 trillion, representing 2.7% of the industry (National Manufacturing Survey – DANE, 2008).

With the economic slowdown of 2008-2009, national production of vehicles slowed on average 30% year-on-year. This situation led to a reversal of the positive tendency of employment creation in the automotive industry, which reached its peak during 2007. This meant a fall in employment of 42.8% between November 2007 and May 2009, when the recovery of the sector began. Up to September 2010, employment in the sector increased by 8.2% year-on-year, although this has been concentrated in temporary workers, without having a significant impact on permanent employees, a situation that could remain unchanged while the recovery consolidates.

Three companies concentrate 97% of the domestic supply of vehicles

In Colombia assembling activities are undertaken by eight companies dedicated to the production of various lines, from small vehicles to trucks and public service vehicles. Three companies have traditionally focused their activities in cars: Colmotores (Chevrolet brand), Sofasa (Renault) and Compañía Colombiana Automotriz (Ford, Mazda and Mitsubishi). The other assembly companies are mainly focused on commercial vehicles, both for freight and passengers[3] .

Vehicle assembly plants are located at the center of the country, where the main market is located, however distant from the ports. Additionally, some suppliers are also far from the manufacturing companies. These two situations undermine the international competitiveness of the sector, mainly as a result of the high logistical costs (DNP, 2004).

On the other hand, the main auto parts companies with plants in Colombia are Michelin, Goodyear, Yazaki Ciemel (installations and electrical cabling), Saint Gobain (glass), Espumaltex (polymerized products), IMAL (suspension, transmissions, seat belts, silencers, parabolic sheets), and Thermoform S.A. (door panels, transmission casings, interiors, consoles).

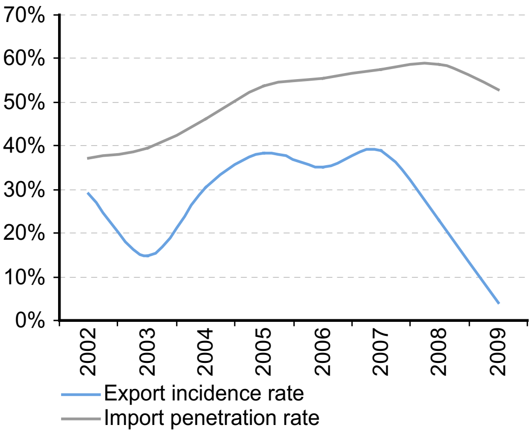
3: Other assembly companies are: Carrocerías Non Plus Ultra (own brand, CKD Volkswagen), Compañía de Autoensamble Nissan (Nissan), Hino Motors Manufacturing S.A. (Hino–Toyota group), Navitrans (Agrale) and Praco Didacol (Hino–Toyota).

Trade integration affected by the deterioration of external demand

With regard to the international integration of the sector, it is noticed the reduction in the export incidence (4% in 2009, decreasing from 38% en 2005), while imports penetration maintains between 50% and 60% since 2005 (see **Chart 11**). During 2009, only 3,529 vehicles were exported, a reduction of 24% year-on-year. Due to the high contribution of vehicle exports to Venezuela, the closing of that market since the end of 2008 negatively impacted the exports of the assembly companies, forcing them to diversify. As a result, exports to Venezuela went from accounting for 64% of exports in 2002 to 17% in 2010 exports up to September (see **Chart 12**).

Chart 11

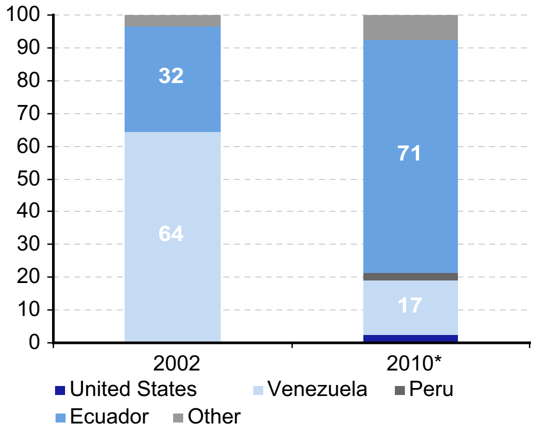
Trade integration indicators (%)



Source: ACOLFA, BBVA Research

Chart 12

Exports by destination country (% share in FOB values)



* To September
Source: DANE

The difficulties experienced by the industry to substitute the Venezuelan market by new markets for vehicle exports are evidenced by the low use of the installed capacity. In fact, the Industrial Association (ANDI) indicate that the potential production of the automotive industry is close to 280,000 units per year, which is over three times the vehicle production in 2009 (88,342 units). In the short term, investment decisions of the assembly industry will be conditioned by the growth of other export markets and the continuance of economic and financial conditions that encourage domestic demand, in which case they could use the full installed capacity and increase vehicle production.

The production of auto parts receives a boost from industrial and trade policy

The auto parts sector boasts a market structure that is competitive and specialized. Products of the auto parts sub-sector have two complementary target markets: vehicle assembly as well as replacement and repair. The value of auto parts production in 2007 reached 0.5% of GDP.

Between 2003 and 2007, auto parts exports displayed vertiginous growth, up to a rate of 78% year-on-year in 2007. Still, during 2009, an important turnover took place for these exports (-17.2% YoY), the consequence of the deterioration of trade relations with Venezuela, a market that has represented between 32% and 34% of auto parts exports. For 2010 up to September, auto parts exports have grown 11.8% y-y, showing recovery symptoms.

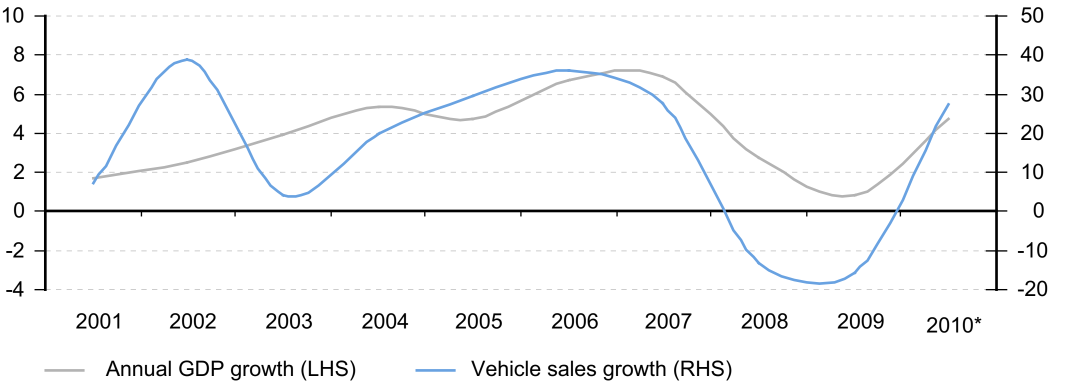
In the short and medium terms the sustainability and reliability of the national auto parts industry will be determined by the adjustments of the domestic component requirements and the opening of new markets through treaties and trade agreements, where the Andean Agreement play a key role. In addition, the auto part industry is promoted by the government's trade policy. In fact, taking into account the volume of employment generated, linkage to other industries, and the appeal for foreign investment, the auto part industry has been selected as one of the strategic sectors to be actively promoted by the government and the private sector through the Productive Transformation Program lead by Proexport.

4. Diversification improved after revival of vehicle sales

Vehicle sales in Colombia have fluctuated greatly, and are highly correlated with the economic cycle. In particular, in 2007 the record sales were observed, with average annual growth of 27%, when 253,000 units were sold for an estimated value of 1.2% of GDP (US$2.422 billon). In 2008 and 2009, the automotive sector, weaken by economic deceleration and foreign exchange conditions, faced falls of vehicles sold that were close to 13% and 15% y-y respectively (see **Chart 13**). The estimated value of total sales in 2009 represented 0.6% of GDP.

Chart 13

Growth of vehicle sales and Real GDP (% YoY)



* To September
Source: Dane, Econometría, BBVA Research

Recovery of domestic demand for all segments

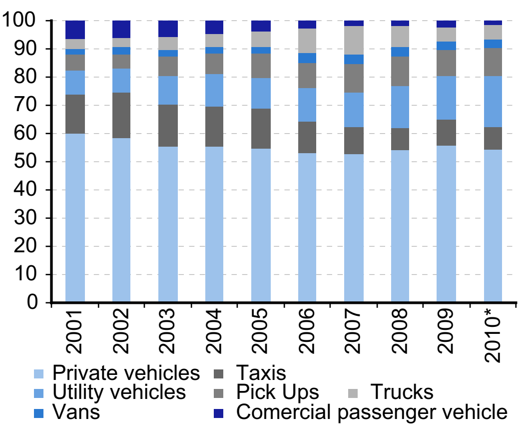
By segment, private cars lead sales with 54% de the units and 44% of the value (see **Chart 14**). In this year up to September, the number of private cars sold increased 28% to 94,221 units. For 2010, it is estimated that total private vehicle sales will be close to 180 thousand vehicles, whose value could be close to 0.7% of GDP.

On the other hand, taxis sales reached their highest level in 2007, when 24,423 units were sold. Still, the share of taxi sales went from 14% of total vehicle sales on average during 2000-2005 to a current figure of 9%. In 2010 up to September 14,799 taxis were sold, mainly from India and South Korea, and the leading brands were Hyundai, Chevrolet, and Kia. The national industry supplies about 18% of this market.

Finally, by geographic area, 70.6% of sales this year up to September were made in 3 regions: Bogotá and Chía, Medellín, Cali, and Tuluá). The participation of Bogota and its suburbs stands out with 46% (see **Chart 15**).

Chart 14

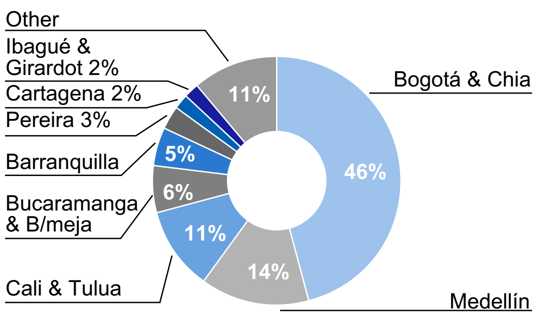
% share of sales by segment



* To September
Source: Econometría

Chart 15

Sales by cities (% share of sales accumulated to September 2010)



Source: Econometría

Commercial vehicles will have great potential if improvements in regulations take place

The passenger transport fleet in 2009 consisted of 203,938 vehicles, with an average age of 16 years. Passenger vehicle sales (2,865 units) have decreased 11% year-on-year this year up to September, with the primary supplier being the national industry, whose participation is 72%.

In particular, the number of passengers travel by road in 2009 reached a historical record of 172.6 million (2.7% year-on-year) after a reduction in 2008 of 2.4%, a sign of the recovery of the economy and the potential growth in demand for passenger vehicles. On the other hand, the implementation of large-scale integrated transport systems in the main cities, that aims to organize urban public transport service, promotes the transformation of the passenger vehicles fleet, a tendency that will continue over the coming years as these systems are implemented in medium-size cities.

For its part, the trucks fleet consists of 207,712 vehicles, with a medium age of 17 years. The sale of trucks has increased 25% year-on-year, to 8,506 units this year up to September, of which 54% was assembled in the country.

The dynamic of the trucks market has been very positive. This is due to the fact that some 73% of the cargo in Colombia, about 125 million tons per year, is transported by road, which favors the frequent and continuous use of light, medium-size, and heavy trucks.

Regulation plays an essential role in the development of cargo transportation market. With the objective of renewing the trucks fleet, a scrapping program has been in effect since 2001. In particular, in 2008, programs for the replacement and renewal of the national trucks fleet have been enacted, with economic incentives for the scrapping of vehicles in operation over 25 years. Non significant results have been seen from this program due to the difficulties experienced by single private owners and the informal sector in accessing renewal funds.

Furthermore, the development of the freight vehicles market in the medium term will be determined by advances in road infrastructure. The national government will soon introduce the Plan Maestro de Transporte (Transport Master Plan), which will identify projects and investments that must be carried out over the coming eight years. The plan will also contemplate alternative financing means, a transport regulation system, proposals for the optimization of public transport quality, a strategic institutional vision, and a proposal for logistical development. It is expected that a simpler and single regulatory framework will be devised to facilitate reduction in transport costs within a strategy of logistical chains. The coordinated deregulation of transport costs will be one of the key elements of the plan together with a renewed and more efficient institutional scheme.

Chevrolet and Renault are the market leaders, Kia is on the rise

Brand analysis reveals that the consistent leader of the Colombian market is Chevrolet. Up to September 2010, some 59,636 Chevrolet vehicles were sold, an annual growth of 22% and accounting for 34.3% of all units sold (see **Chart 16**). Next in line in terms of sales is Renault (14.6% share), with 25,348 units sold and an annual growth of 25% YoY. Both manufactures have local assembly facilities.

By contrast, Kia is the brand that has advanced the most in the market. Since 2006 its market share increased 5.4 percentage points, representing 8.3% of units sold in 2010 up to September.

As for companies leading sales, GM Colmotores remains first with 34.4%, followed by Sofasa with 14.9% and Hyundai of Colombia with 10.8%. If the trend of importing non-traditional Asian brands continues, this ranking could change over the coming years.

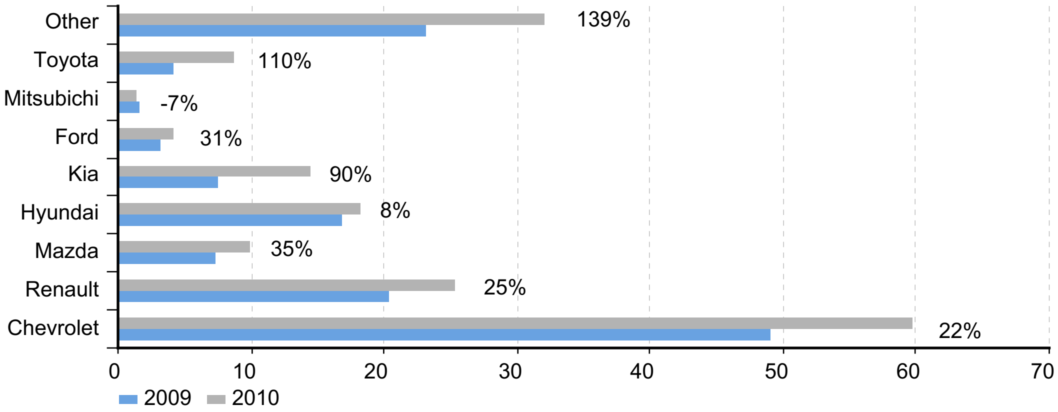
High commercialization of medium and low range cars

In terms of the best-sold models, a preference is seen for traditional brand vehicles, especially in the private car and commercial vehicle segments. Hyundai Citi taxis and Chevrolet Spark and Aveo cars are the market leaders (see **Table 5**). As for utility vehicles, the best-sellers so far in 2010 have been the Chevrolet Vitara and Captiva.

With regard to car dealers, there was a marked disparity between sales and profits. By sales, the three main dealers of the country reported sales up to US$2,158 billion in 2009. In terms of profits, the three leading dealers achieved US$35 million of net profits. However, profit growth and assets profitability vary greatly between dealers, where dealers of Korean, Japanese, and US brands are ahead.

Chart 16

Sales by brand, during 2010 up to September and annual variation (million vehicles, %)



Source: Econometría

Table 5

Best-selling models (sales during 2010 up to September)

Private cars	**Units**	**Taxis**	**Units**
Chevrolet Aveo 1.6 4P A/C	5,901	Hyundai Citi Taxi	7,542
Chevrolet Spark C/A	4,418	Chevrolet Taxi Chronos 7:24 C/A	1,756
Renault Stepway	3,762	Kia Picanto 5DR EX 1.1 GSL MT Eko Morning	1,018
Utility vehicles		**Pick Ups**	
Chevrolet Captiva 2,4	2,047	Chevrolet New Luv D-MAX Diesel New 3.0	1,890
Chevrolet Vitara Classic	1,104	Mazda BT-50 2.6 Doble Cabina	1,403
Toyota Fortuner Urbana	981	Toyota Hilux D.C. 4X4 Diesel STD	795
Vans		**Trucks**	
Hyundai H1 2.5 TCI 12 Passengers	269	Chevrolet NHR Truck	1,061
Volkswagen Transporter	176	Chevrolet Van N200 Cargo 1.2L M/T	1,020
Renault Kangoo Express C/A	195	Chevrolet NPR Turbo Truck	856
Commercial passenger vehicles		**Total of Automobile Sector**	
Chevrolet NPR Turbo Bus	521	Hyundai Citi Taxi	7,542
Hino FC4J Buseton	343	Chvrolet Spark C/A	4,418
Chevrolet Van N200 1.2L M/T S/A	298	Chevrolet Aveo 1.6 4P A/C	5,901

Source: Econometría

5. Expectation on demand for private vehicles boosted by the increased average income of the population

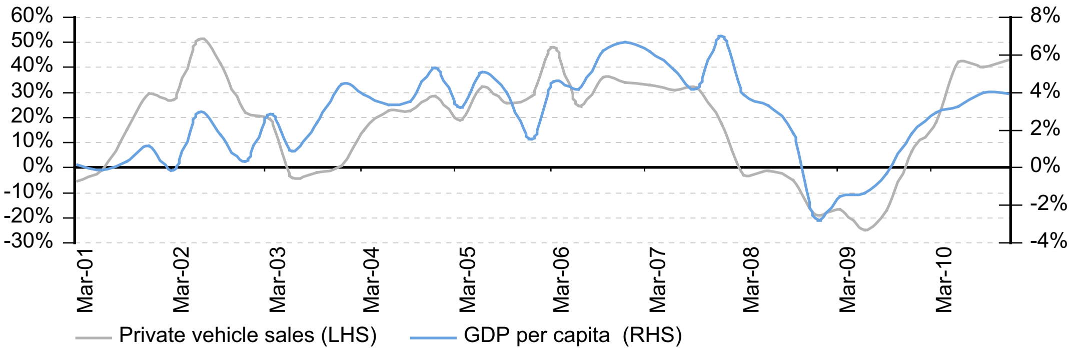
The recent evolution of the demand for private cars has been determined mainly by growth of average personal income and decreasing vehicle prices. The correlation between the growth of GDP per capita and sales of private vehicles since 2001 is close to 61% (see **Chart 17**). Following a slight downturn in 2009, it is expected that per capita income will satisfactorily recover over the coming years, supported by the strengthening of domestic demand and the good performance of strategic sectors such as mining, construction, and the agricultural industry. As long as the average income of the population improves, with an expanding middle class, the consumption of durable goods will accelerate, including automobiles. This trend will be reinforced by downward pressure on vehicle prices given the factors mentioned above.

Vehicle sales forecast shows that positive growth dynamic will be maintained in 2011, followed by a moderation of the tendency in 2012. For 2011 it is estimated that sales of private vehicles will grow by 26% and those of commercial vehicles by 14%. For 2012, the growing trend will moderate so that the growth of private and commercial vehicles sales will be 12.5% and 8.5% respectively (see **Table 6**).

Additional demand for private vehicles would be possible if a growing population reaches an income level that allow them to afford durable goods of higher value. The number of new potential vehicle buyers can be estimated using income per capita and demographic dynamics. For 2009, about 1.4 million people had incomes over COP$1.5 million (US$830), equivalent to about 9% of the working population. Based on expected GDP per capita and population growth through 2014, it is estimated that close to 640 thousand additional workers will have incomes above COP$1.5 million, who could be considered new potential car buyers. It is worth noting that these results do not include potential demand of workers who currently earn more that the aforementioned threshold, and whose income will also increase over the coming years.

Chart 17

GDP per capita and private vehicle sales by quarter (% change year-on-year)



Source: DANE and BBVA Research

Table 6

New vehicle sales forecast (Units and % change year-on-year)

	Private vehicles	Commercial vehicles	Total
		Units	
2009	131,929	53,200	185,129
2010	179,897	69,579	249,476
2011	226,617	79,425	306,041
2012	272,977	86,201	359,179
		% change year-on-year	
2010	36.4	30.8	34.8
2011	26.0	14.1	22.7
2012	20.5	8.5	17.4

Source: BBVA Research

Therefore, potential risks in the vehicles market over the coming years would be mainly related to a weakening of internal demand and a slowdown in the export diversification process. Although the industry and consumers expect the acceleration of economic growth over coming years, external factors affecting stability of the average personal income could moderate this dynamism. Factors that negatively impact the employment generation trend or lead to greater levels of informal employment, would limit access to financing for people with lower incomes or self-employed. In this scenario, a reduction of demand for durable goods is possible, so that expectations of great dynamism in the automotive sector would not be fulfilled, and both the renewal of the automotive fleet as well as the penetration of vehicles would be maintained at current low levels.

6. Multiple clients and institutions determine vehicle financing

Customer service mainly personalized and available at the selling point

In car retail sales the most common approach in which financial services are offered is through agreements between financial institutions and dealerships for direct point-of-sale service. The commercial presence of various financial institutions right at the store, whether permanent or partial, enables flexibility in the provision of financial services and adds efficiency to the entire vehicle purchase process, a factor that is highly valued by clients.

In addition, specialized financial institutions for the automotive market have centers and branch offices dedicated to vehicle credit transactions. This approach is complemented by some car dealers that facilitated red type and optimized coordination among parties during the buying process. In fact, the crucial and differentiating factors in the delivery of vehicle credits are directly related to the time taken by financial institutions to pre-approve and approve loans and the delivery time of documents for sale formalization and vehicle registration (in case of collateral).

By contrast, traditional approaches offer financing for vehicle purchase without brokerage of auto dealers. In this case, the financing and formalization process takes more time and the amount borrowed is more sensitive to variations in the average income of the population and the sector performance. In any case, vehicle buyers can find the same variety of financial products and conditions independently of whether a dealer acts as intermediary.

In retail vehicle sales a specialized financing system has been developed with vastly experienced institutions and a wide variety of flexible and customized products. Financial products offered vary from commercial loans, with or without the vehicle as collateral, leasing (operative or financial), to savings plans. Repayment periods for loans to individuals vary between three and five years. Depending on the financing approach, the product, the city, the services offered by dealers, and the availability of the vehicle, the purchase process from the pre-approval request of the credit to its disbursement can take between 3 and 30 days.

On the other hand, the financing of manufacturers, assemblers, importers, and dealers is through traditional customer service methods and includes a wider range of financial products developed for industry and commerce.

A sector with high financial leveraging

The financial sector plays a central role in the dynamics of the automotive sector at different levels and phases. The different roles of the financial sector include products and services to all actors such as the industry, importers, dealers, and buyers.

From the supply point of view, financial institutions provide working capital, guarantees, services for foreign trade, and resources for investment in fixed long-term assets to assemblers, auto parts manufacturers, importers, and dealers. On the demand side, they provide financial resources, medium and long term, for the purchases individual cars by private clients and the purchase of fleets by large, medium-size, and small companies, from the industrial, commercial, official, and specialized transport (cargo and passenger) sectors.

A large number of financial institutions offer financial services to the automotive sector, such as commercial banks, finance companies, financial corporations, and trust companies. According to market surveys, finance companies (including leasing specialized companies) have a share of this market approaching 70%, banks have 25%, and other institutions 5%.

In fact, consumer loans to purchase cars and other private vehicles were COP$4.5 trillion in June 2010, a reduction of 10% over the last two years (see Chart 18). Loans for vehicles represented 10% of consumer loans, a decrease of 2.5 points compared to that reported in June 2009.

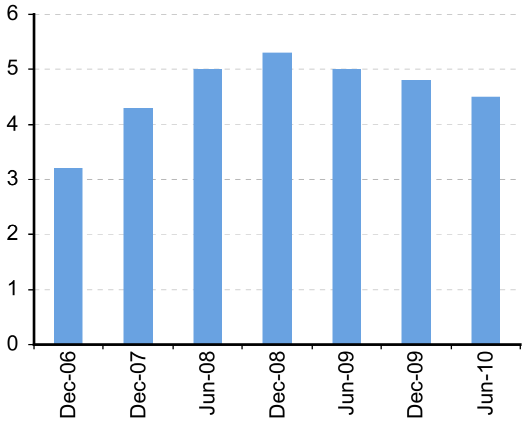
Loans to purchase cars and other private vehicles account for the largest amounts among all commercial loans. In June of this year, these loans had an average amount of COP$14.7 million (US$7,633), quite above the average amount of consumer loans - COP$2.7 million (see Chart 19). In line with its high average value, the number of credits for vehicles is low compared to other consumer credits, representing only 2% of the total consumer credits.

The financed proportion of the vehicles depends on the value range of the vehicle. On average, medium-range and low-range models receive loans between 70% and 80% of the value of the vehicle, while high-range vehicles are financed at a level of 60% of their value. In all cases, the portion of the value of the vehicles to be financed varies depending on whether the old vehicle is turned in as part of the deal (received by the dealer as part of the payment). On the other hand, while close to 60% of private vehicles purchased is financed, the proportion of commercial vehicles financed is close to 100%.

Applying these proportions to total sales during 2010 up to September (173,888 vehicles), the estimated financed value in 2010 so far is around COP$3,6 trillion (0.7% of GDP), which represents 3.6% of the disbursements for commercial and consumer loans so far this year up to September. With this in mind, the average value of loans for vehicles (both commercial and private) would be COP$28.2 million.

Chart 18

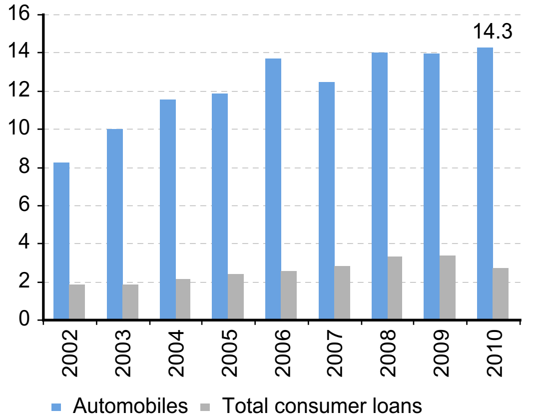
Consumer loans to vehicles purchases (Trillions of COP$)



Source: Banco de la República

Chart 19

Average value of consumer loans at June each year (Millions of COP$)



Source: DANE

The low penetration of financing in the new vehicle market, the possibility of extending it to operations in the second-hand market, the expectations of fast growing supply and demand in the automotive sector, and greater competition between financial institutions, all suggest a strong development of vehicle financing over the years to come.

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This report has been produced by the Colombia Unit:

Chief Economist
Juana Téllez
juana.tellez@bbva.com.co

María Paola Figueroa
mariapaola.figueroa@bbva.com.co

Poldy Paola Osorio
poldy.osorio@bbva.com.co

Mauricio Hernández
mauricio.hernandez@bbva.com.co

John Jairo Reina
Student in professional practice
john.reina@bbva.com.co

María Claudia Llanes
maria.llanes@bbva.com.co

Daniela Buenaventura
Student in professional practice

Ignacio Miró
ignacio.miro@bbva.com.co

BBVA Research

Group Chief Economist
José Luis Escrivá

Chief Economists & Chief Strategists:

Regulatory Affairs, Financial and Economic Scenarios:
Mayte Ledo
teresa.ledo@grupobbva.com

Financial Scenarios
Sonsoles Castillo
s.castillo@grupobbva.com

Financial Systems
Ana Rubio
arubiog@grupobbva.com

Economic Scenarios
Juan Ruiz
juan.ruiz@grupobbva.com

Regulatory Affairs
María Abascal
maria.abascal@grupobbva.com

Market & Client Strategy:
Antonio Pulido
ant.pulido@grupobbva.com

Equity and Credit
Ana Munera
ana.munera@grupobbva.com

Interest Rates, Currencies and Commodities
Luis Enrique Rodríguez
luisen.rodriguez@grupobbva.com

Asset Management
Henrik Lumholdt
henrik.lumholdt@grupobbva.com

Spain and Europe:
Rafael Doménech
r.domenech@grupobbva.com

Spain
Miguel Cardoso
miguel.cardoso@grupobbva.com

Europe
Miguel Jiménez
mjimenezg@grupobbva.com

United States and Mexico:
Jorge Sicilia
j.sicilia@bbva.bancomer.com

United States
Nathaniel Karp
nathaniel.karp@bbvacompass.com

Mexico
Adolfo Albo
a.albo@bbva.bancomer.com

Macro Analysis Mexico
Julián Cubero
juan.cubero@bbva.bancomer.com

Emerging Markets:
Alicia García-Herrero
alicia.garcia-herrero@bbva.com.hk

Cross-Country *Emerging Markets* Analysis
Daniel Navia
daniel.navia@grupobbva.com

Pensions
David Tuesta
david.tuesta@grupobbva.com

Asia
Stephen Schwartz
stephen.schwartz@bbva.com.hk

South America
Joaquín Vial
jvial@bbvaprovida.cl

Argentina
Gloria Sorensen
gsorensen@bancofrances.com.ar

Chile
Alejandro Puente
apuente@grupobbva.cl

Colombia
Juana Téllez
juana.tellez@bbva.com.co

Peru
Hugo Perea
hperea@grupobbva.com.pe

Venezuela
Oswaldo López
oswaldo_lopez@provincial.com

Contact details

BBVA Research Colombia
Carrera 9 #72-21, 10th floor
Bogotá, Colombia
Tel: 3471600 ext 1408
E-mail: bbvaresearch@grupobbva.com

Colombia Outlook is available in Spanish